

RESEARCH



# DUBAI OFFICES MARKET UPDATE

H1 2015

GROWTH AND PRODUCT SUPPLY ARE STIMULUS FOR COMMERCIAL CONSOLIDATION

# HEALTHY LEVEL OF DEMAND FOR DUBAI OFFICE MARKET



The Dubai office market has continued to experience a healthy level of demand throughout Q4 2014 and Q1 2015. Occupier activity in the shape of expansions, new start-ups, consolidations and renewals has continued to reduce vacancy levels, especially within prime office developments where the supply of available space remains low. While there are signs economic momentum is slowing, levels of activity remain robust. Dubai's economy has continued to grow despite the drop in oil prices which is testament to the city's diversification across various sectors including finance, logistics, tourism and retail. The healthy level of demand and low supply of prime office space has helped to exert continued upward pressure on rents. Prime rents were flat quarter on quarter but were up 2.1% from a year earlier.

## Grade A developments

With the supply of well-specified prime office developments yet to cater for a growing level of occupier demand, we are seeing the construction of a number of Grade A developments which are coming out of the ground in order to satisfy both on shore and off shore demand. Tecom's D3 development at the Design District

is the first to come on line with the initial phase delivered in March. A number of high profile luxury, fashion and design companies have already committed to the development, encouraging a diverse range of global, regional and local firms in related industries to sign pre-lease agreements on future phases of the project. The development is able to cater for both companies that hold an onshore DED trade license, as well as companies that require a free zone license. The new office development at the Trade Centre, expected to be delivered in Q4 2015, will also add some much needed grade A supply to the market. Recent announcements have clarified that the development will now also be suitable for free zone based business as well as those with a DED trade license. The lack of well delivered office space within the DMCC has seen the emergence of One JLT which is expected to be delivered in Q4 2015. The grade A office building has been built to absorb specific demand from companies wishing to establish themselves within the commodities based free zone. One of the most anticipated announcements has been within the DIFC where a joint venture between ICD and Brookfield is planning to deliver a 50 storey office tower that will sit behind Currency

House and the Ritz Carlton with direct physical access into the free zone itself. The announcement of Brookfield Plaza along with new stock recently delivered within buildings such as Index Tower and Burj Daman are providing much needed relief to the DIFC which is almost at full capacity itself.

## Office consolidation

While the city waits for anticipated developments to be completed and become ready for occupation, various large international and local corporates face issues of having out grown their current premises or having become stretched with numerous leases held over single or

multiple destinations. As companies have grown in line with the economy, many face a conundrum surrounding finding suitable premises that meet immediate or future requirements. This has left strong demand for consolidation of premises and leases into both new developments or even build-to-suit solutions. In the short term these occupiers are waiting for new developments to come on line and are trying to manage existing lease obligations. The development of office schemes that can accommodate companies that hold both onshore and offshore trade licenses are welcomed addition to the market and demonstrates further diversification of Dubai's economy.

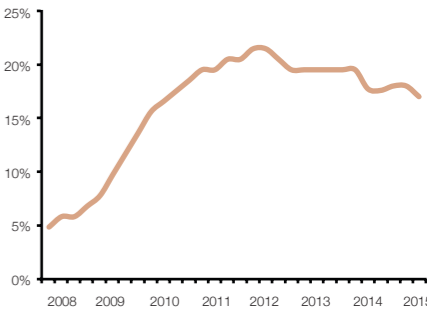
Dubai's economy has continued to grow despite the drop in oil prices which is testament to the city's diversification across various sectors including finance, logistics, tourism and retail.

FIGURE 3  
Key market indicators

Prime rents (AED per m <sup>2</sup> )	1,990	◀▶
Grade A (AED per m <sup>2</sup> )	1,690	▲
Grade B (AED per m <sup>2</sup> )	1,130	◀▶
Market-wide vacancy rate	27%	▼
Average rent-free	6%	▼

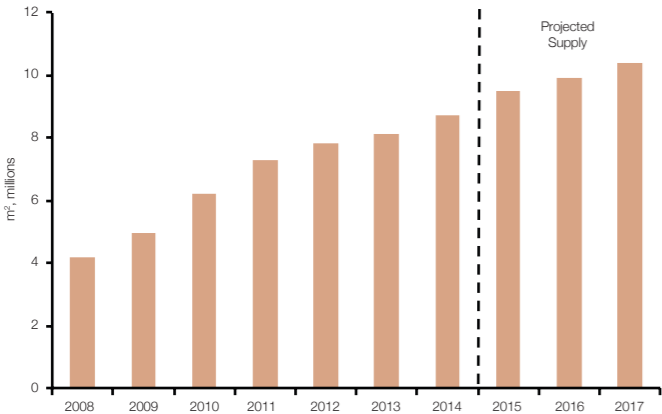
Source: Knight Frank / REIDIN

FIGURE 4  
Prime vacancy rate



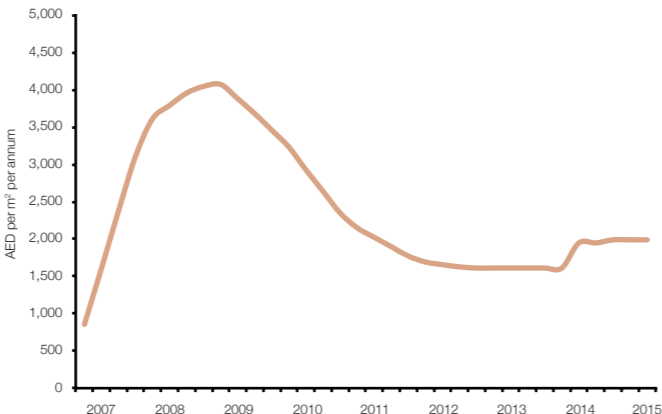
Source: Knight Frank, REIDIN

FIGURE 1  
Dubai office stock, 2008-2017



Source: REIDIN, Knight Frank

FIGURE 2  
Prime Office Rents (excluding DIFC)



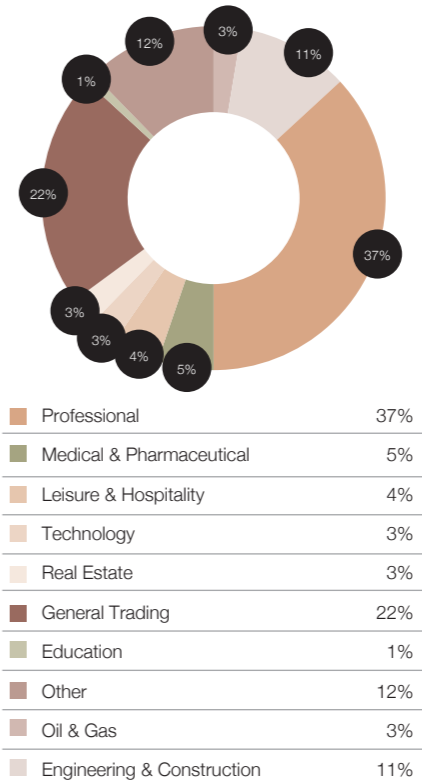
Source: Knight Frank

FIGURE 5  
Indicative rents by district  
(AED per m<sup>2</sup> per annum), Q1 2015

	Indicative for fitted office space	Trending
DIFC	2,530	◀▶
Emaar Square / Downtown	1,991	◀▶
Internet City	1,615	◀▶
Knowledge Village	1,615	◀▶
Media City	1,615	◀▶
Sheikh Zayed Road	1,615	▲
Business Bay	1,507	▲
JLT	1,130	◀▶
Deira	1,075	◀▶
Bur Dubai	969	◀▶
Tecom C	915	◀▶

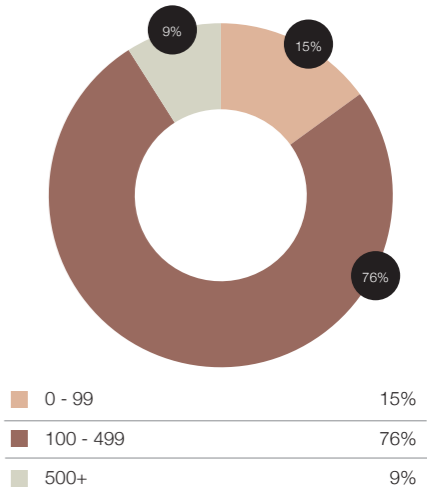
Source: Knight Frank

FIGURE 6  
Enquiries by Sector, Q1 2015



Source: Knight Frank

FIGURE 7  
Enquiries - Requirement by Size (m<sup>2</sup>), Q1 2015



Source: Knight Frank



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#### Technical Note

Floorspace has been sub-divided into Prime, A & B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, car parking ratio, specification, quality of finish, location, situation and overall attractiveness. Category A works comprise services, lift safety elements and basic fittings and finishes for the operation of lettable work space, including but not limited to suspended ceilings; raised floors and skirting; cooling and heating services.

A Tenant Inducement % is the proportion of rent free period over the term certain. The U.A.E Dirham is pegged to the US Dollar at a rate of USD 1 : AED 3.673.

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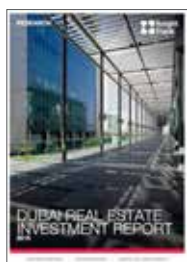
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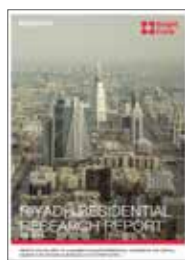
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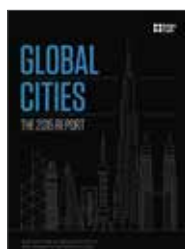
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